MULTIMEDIA UNIVERSITY

STUDENT ID NO

MULTIMEDIA UNIVERSITY

FINAL EXAMINATION

TRIMESTER 2, 2017/2018

BAC 3684 – SECURITY INVESTMENTS AND PORTFOLIO MANAGEMENT

(All sections / Groups)

07 MARCH 2018
09.00 a.m. – 12.00 p.m.
(3 Hours)

INSTRUCTIONS TO STUDENTS

1. This Question paper consists of 5 pages with 4 Questions only .

2. Attempt **ALL** questions . All questions carry equal marks and the distribution of the marks for each question is given .

3. Please print all your answers in the Answer Booklet provided .

QUESTION 1

A. Petronas Gas Berhad reported earnings per share of RM2.40 in 2017 and paid dividends per share of RM1.06. The earnings had grown 7.50% a year over the prior five years. The earnings were expected to grow 6.00% a year in the long term, starting in 2018. The stock had a beta of 1.05 and traded for 10 times earnings in Kuala Lumpur Stock Exchange (Bursa Malaysia). The risk free rate is estimated at 7.00% and the market risk premium is 5.50%.

Show your working steps.

i. Estimate the P/E ratio for Petronas Gas Berhad.

(6 marks)

ii. Compute the long-term growth rate that implies in the firm's current P/E ratio when the stock is trading for 10 times earnings.

(3 marks)

B. Alyssa notices that UMW Holdings Berhad offers the dividend presently at RM0.80. Due to this reason, she plans to purchase the stock of UMW. She has seen that for the next four years, the annual dividends of UMW Holdings Berhad stock are expected to be RM1.00, RM1.40, RM1.60 and RM2.00. In addition, the stock price is expected to be RM10.00 in four years.

You are the broker of Alyssa, she seeks your service to determine the price of this stock for her portfolio if the cost of equity is 10.00%. How much the stock value of UMW?

Show your working steps.

(4 marks)

Continued .....

C. Moonstar Corporation is seeking the best method of funding the development of business operation. The chairman of Moonstar Corporation has pointed that a major bank in the country where Moonstar Corporation is located has begun to offer a range of Islamic financial products. The bank's chairman has suggested that a Mudaraba contract would be the most appropriate method of providing the funds required for the investment.

i. Discuss whether a Mudaraba contract would be an appropriate method of financing the investment in Moonstar Corporation.

(8 marks)

ii. Discuss why the bank may have concerns about providing finance by this method.

(4 marks)

(Total: 25 marks)

QUESTION 2

Samantha has an interest to buy two issues of bonds from IOI Berhad. There are Bond X and Bond Y which have a par value of RM100 per unit. Both bonds pay a coupon of 10% and are payable on a semi-annual basis. Bond X has 5 years to maturity, whereas Bond Y has 10 years to maturity. Both bonds are currently trading at the par value. She looks in your opinions on the following doubts in relation to these two bonds.

Show your working steps.

i. Compute the current yield and the yield to maturity of each bond. Justify your answer.

(2 marks)

ii. If the interest rate suddenly increases by 2%, what is the percentage change in the price of Bond X and Bond Y?

(10.5 marks)

Continued .....

iii. If the interest rate suddenly falls by 2%, what is the percentage change in the price of Bond X and Bond Y?

(10.5 marks)

iv. What conclusion can you make based on your findings in (ii) and (iii)? How do you advise to her?

(2 marks)

(Total: 25 marks)

QUESTION 3

A. Harry is holding 10,000 kg stocks of palm oil. Suppose the price of 1,000 kg of palm oil in the cash market is RM1,500. He likes to hedge himself against the declining in palm oil price so that it does not have a severe effect on the value of his investment.

Show your working steps.

i. What can he do in order to achieve this purpose?

(3 marks)

ii. If Harry takes a position at RM1,400 per 1,000 kg. What is the value of his portfolio when the spot price:

Draw the graph for both spot prices.

a. Drops to RM1,200?

(3 marks)

b. Jumps to RM1,800?

(3 marks)

B. Based on the separation of risk into its systematic and unsystematic components, the capital asset pricing model (CAPM) can be constructed for individual securities and portfolios.

Continued .....

Explain the difference between systematic and unsystematic risk in relation to portfolio theory and the capital asset pricing model by providing examples.

(13 marks)

C. Genting Group is a Malaysian holding involved through its investments and subsidiary companies in several countries and sectors, especially in leisure and hospitality, plantations and agribusiness, power generation and distribution, exploration and production of oil and gas.

Assuming that Genting Group expects to have a short-term cash surplus during the three-month period, discuss whether this should be invested in shares listed on a large stock market.

(3 marks)

(Total: 25 marks)

QUESTION 4

A. British American Tobacco Malaysia is the country's largest tobacco company, regrouping a portfolio of successful international brands synonymous with tradition and being a corporate citizen that adds value to the communities in which it operates.

Discuss the **THREE (3)** significances of the Efficient Market Hypothesis for the corporate financial manager in British American Tobacco (Malaysia) Berhad.

(9 marks)

B. You would like to speculate on a rise in the price of a certain stock. The current stock price is RM25, and a three-month call option with a strike price of RM30 costs RM2.50. You have RM1,000 to invest. Currently, you have two alternative strategies. One involving an investment in stock is to buy 40 shares. Another strategy would be to buy 400 call options.

Continued .....

Calculate your potential gains and losses from each strategy by justifying your answer if the share price is closed in Kuala Lumpur Stock Exchange (Bursa Malaysia) at:

Show your working steps.

i. RM35

(3 marks)

ii. RM20

(3 marks)

C. Robert notices that several leading indicators can further deteriorate in economic conditions. These developments are clearly unfavourable for the equity market if it is based on the composite economic indexes approach.

Discuss **THREE (3)** limitations of Robert's cyclical indicator method in formulating an equity market outlook.

(6 marks)

D. Technical analysis involves the study of past stock prices and trading volume, hoping to find a pattern that can be exploited to earn superior returns.

Describe **FOUR (4)** drawbacks of utilising technical analysis.

(4 marks)

(Total: 25 marks)

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